



**CANDIDATE – PLEASE NOTE!**

PRINT your name on the line below and return this booklet with your answer sheet. Failure to do so may result in disqualification.

**FORM TP 2020148**

TEST CODE **02201010**

MAY/JUNE 2020

**CARIBBEAN EXAMINATIONS COUNCIL**

**CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

**ACCOUNTING**

**UNIT 2 – Paper 01**

*1 hour 30 minutes*

**08 JUNE 2020 (p.m.)**

**READ THE FOLLOWING INSTRUCTIONS CAREFULLY.**

1. This test consists of 45 items. You will have 1 hour and 30 minutes to answer them.
2. In addition to this test booklet, you should have an answer sheet.
3. Do not be concerned that the answer sheet provides spaces for more answers than there are items in this test.
4. Each item in this test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is best.
5. On your answer sheet, find the number which corresponds to your item and shade the space having the same letter as the answer you have chosen. Look at the sample item below.

Sample Item

Overhead absorption rates are used to determine the

- (A) service department's overhead costs
- (B) estimated overhead costs for products
- (C) allocation of overhead costs to products
- (D) actual overhead costs for finished products

Sample Answer

(A) (B) ☒ (C) (D)

The best answer to this item is "allocation of overhead costs to products", so (C) has been shaded.

6. If you want to change your answer, erase it completely before you fill in your new choice.
7. When you are told to begin, turn the page and work as quickly and as carefully as you can. If you cannot answer an item, go on to the next one. You may return to that item later.
8. You may do any rough work in this booklet.
9. You may use a silent, non-programmable calculator to answer items.

**DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.**

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02201010/MJ/CAPE 2020

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A001



1. What is the correct sequence of the following actions when seeking to purchase materials?

- I. Purchase requisition order.
- II. Passing of the bill for payment.
- III. Receipt of materials, raising a goods received note.
- IV. Preparation of the purchase order and its dispatch.

- (A) III, I, IV, II
- (B) II, III, I, IV
- (C) IV, II, III, I
- (D) I, IV, III, II

2. How are the wages of factory maintenance personnel usually classified?

- |     | <b>Indirect<br/>Labour Cost</b> | <b>Manufacturing<br/>Overhead Cost</b> |
|-----|---------------------------------|--|
| (A) | No                              | Yes                                    |
| (B) | Yes                             | No                                     |
| (C) | Yes                             | Yes                                    |
| (D) | No                              | No                                     |

3. When employees are paid on a piece rate basis, the type of cost for their pay is considered

- (A) fixed
- (B) mixed
- (C) variable
- (D) distribution

4. The owner of a wooden furniture manufacturing firm has recently introduced a new, more efficient administrative process. Which of the following costs would be directly affected by this change?

- (A) Warehouse rental
- (B) Factory cleaners' wages
- (C) Factory supervisor's salary
- (D) Overtime paid to carpenters

5. The following information was extracted from the books of James Inc.

Cost of goods sold	\$107 000
Ending balance of finished goods inventory	\$ 20 000
Cost of goods manufactured	\$ 57 000

What is the beginning balance of finished goods inventory for the period?

- (A) \$ 70 000
- (B) \$ 77 000
- (C) \$127 000
- (D) \$157 000

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6. A firm's product has an annual demand of 2 000 units. The cost of placing one order is \$800 and there is a holding cost of \$8 per unit. What is this firm's annual carrying cost?

(A) \$ 8 000  
(B) \$ 9 000  
(C) \$10 000  
(D) \$11 000

7. In which of the following ways should plastic that is used in the manufacture of dolls be classified?

	Prime Cost Direct Cost	Product Cost Fixed Cost
(A)	No Yes	Yes No
(B)	Yes Yes	No No
(C)	Yes No	Yes Yes
(D)	Yes Yes	Yes No

8. Which of the following is an advantage of the piece rate method of paying wages?

(A) It helps to reduce production rejects.  
(B) It can help to reduce monotony at the workplace.  
(C) It is guaranteed to lead to an increase in product quality.  
(D) It is an incentive to produce more within a given time.

9. Keystone Ltd produces a product under licence from Xango Ltd. At the end of each year, Keystone Ltd has to pay Xango Ltd the licence fee as follows:

For the first 60 000 litres \$30 000 and for every litre THEREAFTER \$0.30

How is the licence fee classified?

(A) Step  
(B) Fixed  
(C) Mixed  
(D) Variable

10. A firm estimates that its annual carrying cost for material ABC is \$0.30 per kg, demand is 50 000 kg, and ordering cost is \$100 per order. The economic order quantity (EOQ), rounded to the nearest kilogram, is

(A) 1 125  
(B) 1 732  
(C) 4 082  
(D) 5 774



**Item 11** refers to the following information.

Purchases and sales for the past year for a firm are shown in the table below. Assume purchases are made at the start of each month, while sales occur at the end of each month.

	Purchases			Sales	
	Quantity	Unit Price		Quantity	Unit Price
January	6 000	\$2.00			
February	4 000	\$2.10			
March				7 000	\$3.20
April	2 000	\$2.15			
May	3 000	\$2.20		5 000	\$3.15

11. If the firm uses a LIFO basis for its inventory valuation, what is the value of its closing inventory at 31 May?
- (A) \$3 000  
 (B) \$6 000  
 (C) \$6 600  
 (D) \$9 600

**Items 12–13** refer to the following inventory data for Company X.

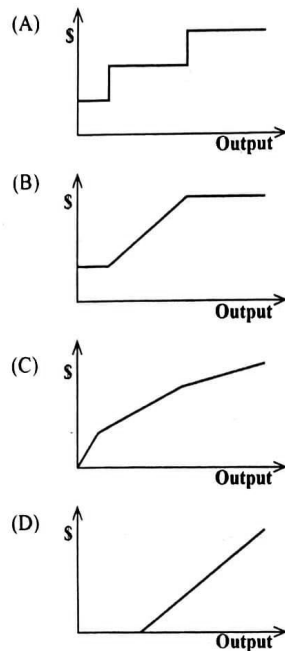
	No. of Units	Unit Cost \$
Opening inventory	300	8.80
Materials received	1 000	9.00
	600	10.00
Materials requisitioned	1 500	

12. The value of the closing inventory using the FIFO method is
- (A) \$1 000  
 (B) \$2 640  
 (C) \$3 600  
 (D) \$4 000
13. The value of the closing inventory using the LIFO method is
- (A) \$ 900  
 (B) \$2 640  
 (C) \$3 540  
 (D) \$3 640

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14. Which of the following graphs reflects the renting of extra warehouse space by a firm during periods of increased demand?



15. Which of the following are NOT period costs?

- (A) Marketing costs  
(B) Manufacturing costs  
(C) Research and development costs  
(D) General and administrative costs

16. A service organization would MOST likely use a predetermined overhead rate based on

- (A) direct labour  
(B) machine hours  
(C) standard material cost  
(D) the number of complaints

Item 17 refers to the following information.

Husky Corporation uses a job order costing system and is working on two jobs, AB1 and AB2. The details for these jobs are given in the table below.

	AB1	AB2	Total
WIP	\$12 000	—	\$12 000
Material cost	\$36 000 (60%)	\$24 000 (40%)	\$60 000
Direct labour	\$36 000 (75%)	\$12 000 (25%)	\$48 000

Overheads were charged to jobs using a rate of 150% of direct labour cost. Both jobs were completed at the end of the month but only AB2 was sold.

17. What entries should be made to record the sale of Job AB2?

- (A) Debit work-in-progress and credit cost of sales.  
(B) Debit cost of sales and credit work-in-progress.  
(C) Debit cost of sales and credit finished goods.  
(D) Debit finished goods and credit cost of sales.

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18. Which of the following is a similarity between 'job order costing' and 'process costing'?

- (A) Both utilize the job cost sheet.
- (B) Costs are accumulated by departments.
- (C) Both are used to collect the cost of production.
- (D) Costs are accumulated by individual jobs.

Item 19 refers to the following information.

Derek's Ltd produces and sells electronic readers. During the year, the company produced 20 000 units and sold 15 000 units. Cost data relating to the products show the following.

Direct material per unit	\$35
Direct labour per unit	\$20
Variable manufacturing overhead per unit	\$10
Total fixed manufacturing overheads	\$216 000
Budgeted production for the year	18 000 units
Actual fixed manufacturing overheads	\$245 000

19. The amount of fixed manufacturing overhead over/underapplied for the year is

- (A) 5 000 underapplied
- (B) 5 000 overapplied
- (C) 50 600 overapplied
- (D) 50 600 underapplied

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Items 20–21 refer to the following information.

Adams Company uses a job order costing system. The company has three jobs in process: Job numbers 5, 8 and 12.

Raw material used \$120 000.00  
Direct labour per hour \$8.50  
Overhead applied based on direct labour cost 120%

Direct material was requisitioned as follows.

Job Number	%	Direct Labour Hours
5	30	2 500
8	25	3 100
12	25	4 200

The balance of the requisitions were considered indirect. Indirect labour was \$44 000. Other actual overhead costs totalled \$36 000.

20. What is the total amount of overhead applied to Job number 8?

- (A) \$18 250
- (B) \$26 350
- (C) \$30 000
- (D) \$31 620

21. If Job number 12 is completed and transferred and overhead is applied at the end of the period, what is the balance in work-in-process inventory at the end of the period?

- (A) \$ 96 700
- (B) \$ 99 020
- (C) \$139 540
- (D) \$170 720

22. Kim operates a business which provides lawn mowing services to clients. Overheads are charged to customers using a predetermined rate of 80% per direct labour cost. The rate per direct labour is \$60. The following cost data relates to three jobs that were covered during the month of April.

Inputs	James	Mona	Sonita
Direct materials	\$45	\$80	\$62
Direct labour hours	2	2.5	5

The total overhead charged on all three jobs is

- (A) \$ 456
- (B) \$ 570
- (C) \$ 757
- (D) \$1 060

23. Which of the following statements about activity-based costing is FALSE?

- (A) It improves control.
- (B) It provides more accurate product costs.
- (C) Indirect cost allocation bases are likely to drive costs.
- (D) It provides less information than cost systems previously used.

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24. Young Corporation has the following costs associated with the manufacture of one of its products.

Variable manufacturing cost	\$7.30 per unit
Fixed manufacturing overhead	\$4.00 per unit
Variable selling expenses	\$0.25 per unit
Fixed sales, general and administrative (SG&A) expenses	\$75 000 per year

During 2019, Young manufactured 50 000 units and sold 48 000. Under absorption costing, the standard production cost per unit for 2019 was

- (A) \$ 7.30
- (B) \$11.30
- (C) \$11.55
- (D) \$13.05

25. Lakers Manufacturing Company uses a weighted average process costing system. In July, 7 000 units were started and 5 200 units were completed. The remaining units of work-in-progress were 60% complete with respect to materials and conversion.

Closing work-in-progress units under materials was

- (A) 720
- (B) 1 080
- (C) 3 120
- (D) 4 200

27. Thunder Ltd uses a weighted average process costing system. In June, 6 000 units were used. At the end of June, completed units totalled 4 000, and the remaining 2 000 units were 60% complete with respect to materials and 45% complete with respect to conversion costs. The equivalent units of production for conversion costs is

- (A) 4 000
- (B) 4 900
- (C) 5 200
- (D) 6 000

26. Which of the following statements about a company that employs absorption costing procedures is true?

- (A) The company cannot use the procedures for external reporting.
- (B) The company treats fixed manufacturing overhead costs as a period cost.
- (C) The company applies only variable production costs to determine cost per unit.
- (D) The company applies both variable and fixed production costs to determine cost per unit.

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Items 28–29 refer to the following information.

Selera Manufacturing Co. makes two products — the lynch and the pin. The company uses activity-based costing.

	<b>Lynch</b>	<b>Pin</b>
No. of units produced	12 400	13 600
No. of purchase orders	4 000	6 000
No. of inspections	3 500	3 500

Overheads information

<b>Activity</b>	<b>Total Cost</b>	<b>Cost Driver</b>
Purchasing orders	\$90 000	No. of purchase orders
Quality control	\$49 000	No. of inspections

28. What is the total overhead cost charged to the lynch?
- (A) \$23 369  
(B) \$42 923  
(C) \$60 500  
(D) \$65 500
29. What is the total overhead cost charged to the pin?
- (A) \$78 500  
(B) \$79 500  
(C) \$88 500  
(D) \$95 500
- 
30. Which of the following is a common fixed cost to the sales department in a hardware store?
- (A) Salaries of the security guards in the store  
(B) Salaries of the supervisors in the department  
(C) Cost of goods removed from the store after expiry dates have passed  
(D) Depreciation on the fittings used exclusively in a specific department
31. Which of the following is NOT a benefit of budgeting?
- (A) It uncovers potential bottlenecks before they occur.  
(B) It provides benchmarks for evaluating subsequent performance.  
(C) It ensures that accounting records comply with generally accepted accounting principles.  
(D) It coordinates the activities of the entire organization by integrating the plans and objectives of the various parts.



32. The role of the budget committee is to
- (A) prepare budgets for any period of time
  - (B) give advice on preparing final reports
  - (C) prepare departmental financial reports
  - (D) coordinate the preparation of budgets
33. Which of the following techniques identifies the time period to recover the initial investment from an annual cash flow?
- (A) Payback
  - (B) Net present value
  - (C) Internal rate of return
  - (D) Accounting rate of return
34. When inferior materials are purchased for production at a price lower than the standard, the result may be
- (A) unfavourable material price variance or unfavourable labour efficiency
  - (B) unfavourable material price variance or favourable labour efficiency
  - (C) favourable material price variance or unfavourable labour efficiency
  - (D) favourable material price variance or favourable labour efficiency
35. A primary purpose of using a standard cost system is to
- (A) provide a distinct measure of cost control
  - (B) provide more information to managers
  - (C) minimize the cost per unit of production
  - (D) make things easier for managers in the production facility
36. Mary makes homemade soap which she sells at \$100 per case. The variable cost is \$40 per case and fixed cost is \$600. What is the contribution margin per case?
- (A) \$ 15
  - (B) \$ 40
  - (C) \$ 60
  - (D) \$100



Item 37 refers to the following information.

A manufacturing company operates a system of standard costing as follows.

	Budgeted	Actual
Total variable overheads	\$400 000	\$340 000
Total fixed overheads	\$ 60 000	\$ 50 000
Volume of production (standard machine hours)	10 000	12 000
Units produced	200	200

37. What is the total variable overhead variance?

- (A) 50 000 adverse
- (B) 50 000 favourable
- (C) 60 000 adverse
- (D) 60 000 favourable

Items 38–39 refer to the following information relating to iPhones sold by Digi Telecom Systems

Unit selling price	\$ 1 000
Unit variable costs	\$ 500
Total monthly fixed costs	\$ 100 000

38. What is the breakeven point, in units?

- (A) 67
- (B) 100
- (C) 200
- (D) 300

39. What is the contribution margin ratio?

- (A) 1.5 %
- (B) 22.0 %
- (C) 50.0 %
- (D) 66.0 %

40. Which of the following methods is the SIMPLEST approach to making capital budgeting decisions?

- (A) Incremental
- (B) Payback period
- (C) Net present value
- (D) Accounting rate of return

41. Which of the following pieces of information are required when using the payback period method to evaluate a project (asset)?

- I. The initial cost of the project
- II. The useful life of the project
- III. The net savings (receipts) from the project

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) I, II and III

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42. Which of the following is an advantage of the payback method of capital budgeting?
- (A) It considers the time value of money and makes project comparison easy.
  - (B) It is consistent with other financial measures and data is readily available.
  - (C) It is simple to use and understand, measures liquidity and allows for risk tolerance.
  - (D) It considers the time value of money, uses realistic discount rates and is useful for combined project.
43. Which of the following variances measures deviations in amounts spent for overhead inputs?
- (A) Fixed overhead volume
  - (B) Variable overhead spending
  - (C) Variable overhead efficiency variance
  - (D) Fixed overhead (expenditure) budget variance
44. The Printing Press is seeking to purchase a printing machine. The new machine will cost \$800 000 and will increase cash inflows by \$100 000 per year. It will have a useful life of 15 years with zero salvage value. The company's cost of capital is 7% ( $PVIFA_{7\%,15} = 9.1079$ ). What is the net present value of this investment (ignoring inflation and taxes)?
- (A) \$100 000
  - (B) \$110 790
  - (C) \$900 000
  - (D) \$910 790

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Item 45 refers to the following information.

Direct materials used	4 000 pounds
Purchase price of direct material	\$3.20 per unit
Standard quantity direct material units	4 300 pounds
Standard price of direct material	\$3.30 per unit

45. What was the materials quantity (usage) variance?
- (A) 990 favourable
  - (B) 990 unfavourable
  - (C) 1 390 favourable
  - (D) 1 390 unfavourable

**END OF TEST**

**IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.**

